the ART and SCIENCE of RISK

A Q&A with the chief risk officer of BlackRock, the world's largest asset management company, on how leaders need to adapt their decision-making for a changing world.

Ed Fishwick has been weighing probabilities, uncertainties, and risk his entire professional life. As the chief risk officer at BlackRock, he is responsible for investment and enterprise risk at a company that manages more than $10 trillion in assets. Fishwick's decision-making is heavily steeped in numbers and data, but he admits that "everything is a trade-off between art and science."

People + Strategy editors David Reimer and Adam Bryant sat down with Fishwick to discuss how the rapidly changing world is causing people in all corners of organizations to challenge their own beliefs around risk management.

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People + Strategy: To set the table, can you describe your role at BlackRock?

ED FISHWICK: My title is chief risk officer, and I'm also the head of BlackRock's risk and quantitative analysis (RQA) group. RQA has fundamentally two parts—investment risk for our clients and enterprise risk as a company. My overarching objective is to know at a high level the risk status of the firm and to reassure myself that where we have risk situations, the appropriate focus and attention is being placed on them. It's an atomic problem in terms of investments, because we've got thousands and thousands of portfolios, and each client has their respective concerns.

P+S: Given all that's happened in the world in the last several years, your job has undoubtedly grown more challenging.

FISHWICK: Many of the intellectual and philosophical frameworks we use have not evolved at all. If you consider the risks to individual portfolios, most of the theory behind the analyses we do was developed in the 1960s and 1970s. While an awful lot of the actual theory and philosophy is not particularly new, what has changed beyond all recognition is the technology that you use to get those answers and, where relevant, the scale at which you address the problem.

Take liquidity risk as an example. We paid really de minimis attention to it in the 1990s. We thought about it, but not in a kind of structured, analytical way. But we've learned through various episodes, including the double financial crisis, that liquidity risk has become a much bigger part of the mix. The emphasis you place on it and the amount of technology you throw at it has changed out of all proportion.

P+S: There's an interesting parallel with the world of HR. Many of the underlying concepts are decades old, and there is still a lot of value in them. But at the same time, so much has changed in the world.

FISHWICK: The degree and speed of change are something we talk a lot about here at BlackRock. To what extent is the uncertainty in the world today greater than the uncertainty in the world over time? This is an uncertain time, and it's uncertain partly because of geopolitics and partly because of some very new and emerging technologies that will have an impact in the future in ways that we are still trying to understand.

The aftermath of the pandemic created so much of the unique economic characteristics of this era. And they are in contrast to the decades before the pandemic, when we worked under a paradigm in which central banks had great ability to shape outcomes, to smooth out the economy, to control inflation, and so on. We existed in a very narrow groove of economic uncertainty.

That's not the case today. We have ongoing stickiness in inflation and supply chain challenges. The extreme indebtedness of most Western countries gives central banks very few degrees of freedom. What all that means is that the economic uncertainty going forward is much higher than it has been for a very long time. You are left with some very profound uncertainties. There is a big question about the timeframes and horizons when those uncertainties manifest themselves. For a lot of shorter-term things, it doesn't make that much difference. For medium-to-long-horizon things, it makes an enormous difference.

As just one example, people have long talked about the wisdom of a 60/40 portfolio—invest 60% of your money in equities, 40% in bonds, and you'll be fine over the next 5, 10, or 15 years. Today, it's very unclear that this is true, because there are plausible scenarios in which a portfolio of equities and bonds do quite poorly or are left behind by other parts of the market that will do much better. The uncertainties are more dynamic, and, in that context, risk management is harder.

A Structural Foundation

People+Strategy: On a more personal level, what were important early influences that shaped who you are today?

ED FISHWICK: My dad was a university professor, and I grew up believing that you understood the world by trying to apply form and structure to what you saw. As a kid, I would read lists of things and memorize them if they helped me give structure to the world.

When I moved to New York a few years ago, one of the first things I did was memorize the list of the tallest buildings in New York and how tall they were. My instinct is always to try to understand things by putting some structure on it.

I use a lot of very simple economics to understand things—such as demand, supply, and equilibrium—to think about why things are the way they are. I think a lot of people can benefit from understanding the world within some kind of coherent structure, some organizing framework.

> Markets and life and HR are just intrinsically nonstationary. … Right now, things are probably changing faster than maybe they've ever changed. … So, you need a mindset that acknowledges that the way we understood things 10 years ago isn't the best way to think about them now.

Roughly a century ago, someone in Cambridge drew a distinction between risk and uncertainty. Risk was something where you knew the probability distributions, while uncertainty means you simply don't know because it's uncertain. So much of modern risk management in the investment context involves risk and models of those probabilities, but it strikes me that many risks today are more just uncertainties, particularly with geopolitics and economics.

***P+S:* Your role would seem to embody a universal challenge of leadership, which is having the confidence to make decisions while also always challenging your own assumptions. How do you think about that?**

FISHWICK: All strategic decision-making involves taking information, processing it, understanding distributions of outcomes, and making decisions on the basis of the information. And that kind of decision-making with uncertainty is just part of leadership. Today, decisions are many times harder, and leadership is thus harder because these kinds of outcomes have a bigger distribution of risk around them. That said, I do think that you can see trends and themes against this uncertain background that are more likely than others to lead to fruition.

One of my key heuristics, which I've said thousands of times to people over the years, is that you need to understand what you can know and what you can't know. People waste a lot of time trying to figure out things that they can't know. So, understand what you know and what you don't know. Then, given what you can know, do you have enough information to actually make a coherent decision? Or is it just something you shouldn't do because there are too many things you can't know?

There are so many situations where people want to take decisions, but the decisions imply that they know things that they can't know. To help avoid making a lot of mistakes, you have to accept that there are limits to human knowledge and limits to what is analyzable. So, whenever I look at something new, one of the questions I always ask myself is: Are we assuming we know things that we actually can't know?

People often try to convince themselves that they know stuff. So, one of my jobs over many years has been to try to understand when we're assuming we know things that, actually, nobody can know. Another heuristic is: Are we assuming things that actually are impossible? More often than you would imagine, people assume things that are not actually possible. Clients may want a yield of 10% from a set of assets, even though none of them yield 10% individually, but it's important to understand that it's still impossible.

***P+S:* What lessons can you draw from your work that would be helpful to HR leaders?**

FISHWICK: Risk management is similar to HR in that we have all sorts of models and analytics on a huge scale. And yet, however much you analyze a problem quantitatively, there is always more to know. So, one of the things that we train people to understand about risk management is that the relative effectiveness of models is likely to vary in different contexts. So, I spend a lot of time trying to understand whether quantitative analysis is actually relevant in a given situation and how relevant it is.

There is a lot of data in HR, like employee surveys. But you have to worry about sample size, about representation, about change over time. You should worry about missing variables, and you should worry about all the bias that missing variables cause. You may see research where Y is explained by X, but there are other factors not captured by the research. This is true in all forms of risk management, and I suspect in HR, as well. People start with a point of view, and it's very easy to do analysis to buttress that viewpoint.

Everything is a trade-off between art and science. But a good starting point is to think about the science and to think about why it might or might not work in a particular context. Over time, you develop intuition around where models might be wrong and where they might be right. Always remember that these are just estimates, and life is constantly surprising. That's another mantra of mine—however surprising you think things are, they can always be more surprising.

***P+S:* And how do you deal with that? Even if your underlying mathematical models may be right, your interpretation of them in the current context has to be different from your interpretation of them five years ago.**

FISHWICK: Markets and life and HR are just intrinsically nonstationary. I talk to a lot of people inside and outside of BlackRock about what is happening in the world, and my expectation is that things change. I suspect that right now, things are probably changing faster than maybe they've ever changed. I suspect that is also true in the HR space. So, you need a mindset that acknowledges that the way we understood things 10 years ago isn't the best way to think about them now. You can absolutely learn from the past, but I think the overarching mindset should be that things change.

Interview conducted by executive editor David Reimer and articles editor Adam Bryant.